

Message Text

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ACTION EA-09

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CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
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TO SECSTATE WASHDC 2190
INFO AMEMBASSY TOKYO
AMEMBASSY TAIPEI
U.S. MISSION GENEVA 402
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AMCONSUL HONG KONG

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HONG KONG FOR REGFINATT

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SUBJECT: KOREAN ECONOMY: JANUARY RESULTS ENCOURAGING

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SUMMARY: A STRONG JANUARY EXPORT PERFORMANCE HELPED THE
KOREAN ECONOMY OFF TO A GOOD START FOR 1977, BUT WHETHER THIS
SIGNALS AN EARLY UPTURN FROM THE FOURTH QUARTER 1976 PAUSE
REMAINS TO BE SEEN. END SUMMARY.

1. JANUARY DATE ON THE KOREAN ECONOMY BROUGHT SOME ENCOURAGING
NEWS AFTER AN ESSENTIALLY FLAT FOURTH QUARTER. HOADING THE
PARADE, JANUARY TOTALS OF \$601 MILLION EOR KFX EXPORTS AND B
\$701 MILLION FOR EXPORT LETTER-OF-CREDIT ARRIVALS EQUATE TO
SEASONWLLY ADJUSTED FIGURES OF \$776 MILLION AND \$759 MILLION
RESPECTCVELY. THESE COMPARE TO ADJUSTED AVERAGES IN THE \$665
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TO \$685 MILLION RANGE THROUGHOUT MOST OF LAST YEAR'S SECOND
HALF. INDICATIONS
ARE THAT THIS REBOUNING EXPORT STRENGTH
HAS CONTINUED INTO FEBRUARY

2. KFX IMPORT LICENSING ALSO SHOWED SOME BOUNCE IN JANUARY,
FINISHING AT \$721 MILLION (A SEASONALLY ADJUSTED \$728 MILLION),

BUT ACTUAL KFX IMPORTS WIRE AN ASTONISHINGLY LOW \$500 MILLI N (AN ADJUSTED \$495 MILLION). THIS VISIBLE TRADE COMBINATION, WITH A MODEST SURPLUS IN THE KFX SERVICES ACCOUNT, PRODUCED A \$121 MILLION SURPLUS FOR THE PARTIAL OR KFX CURRENT ACCOUNT FOR JANUARY AS COMPARED TO A \$23 MILLION DEFICIT A YEAR AGO. A FURTHER SURPLUS IS NOW ANTICIPATED IN FEBRUARY AS WELL WHICH WOULD BE AN UNUSUALLY STRONG START FOR WHAT IS NORMALLY THE WEAKEST QUARTER FOR CURRENT ACCOUNT PERFORMANCE.

3. DESPITE THE FOREIGN EXCHANGE CURRENT ACCOUNT SURPLUS, GROSS FOREIGN EXCHANGE RESERVES DROPPED BY \$77 MILLION TO \$2,884 MILLION AS OF JANUARY 31, REFLECTING ADDITIONAL CONTRACTION IN OVERSEAS BANK REFINANCING AND A HEAVY LOAN AMORTIZATION SCHEDULE FOR THE MONTH.

4. FURTHER EVIDENCE OF THE FOURTH QUARTER 1976 PAUSE, MEANWHILE, SHOWED UP IN THE INDUSTRIAL PRODUCTION INDEX (IPI) AND THE OVERALL WARNING INDICATOR (OWI) FOR WHICH DATE ARE NOW AVAILABLE THROUGH DECEMBER. THE SEASONALLY-ADJUSTED IPI FOR THE FINAL THREE MONTHS OF 1976 WAS DOWN 1.4 PERCENT FROM THE PREVIOUS QUARTER, INCLUDING A 3 PERCENT DROP IN DECEMBER. THE DECEMBER OWI (A COMPOSITE INDICATOR) DID EDGE UP TO 1.6 FROM THE YEAR'S LOW READING OF 1.5 RECORDED IN NOVEMBER, BUT REMAINED BEOW THE STRONGER 1.7 TO 1.8 LEVELS REGISTERED OVER THE FIRST 10 MONTHS OF THE YEAR.

5. RETURNING TO JANUARY DATA, A 20 BILLION WON SURPLUS IN THE OVERALL FISCAL BALANCE, WITH ONLY MODEST EXPANSIONARY PRESSURE FROM THE EXTERNAL SECTOR, COMBINED TO KEEP EXPANSION UNCLASSIFIED

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OF MONEY SUPPLY AND DOMESTIC CREDIT TO A TIGHT 0.3 AND 0.4 PERCENT RESPECTIVELY. JANUARY PRICES INDICES SHOWED WHOLESALE PRICES UP 7.9 PERCENT AND RETAIL PRICES UP 9.6 PERCENT AS COMPARED TO THE SAME MONTH OF 1976. BOTH FIGURES REFLECT IMPROVEMENT OVER THE RESPECTIVE INCREASES OF 8.9 PERCENT AND 11.4 PERCENT FOR THE 12 MONTHS ENDING DECEMBER 1976.

6. COMMENT: ON THE WHOLE, THE JANUARY DATE REPRESENT A RATHER IMPRESSIVE START FOR 1977, BUT IT IS TOO EARLY TO TELL WHETHER THEY ARE A SIGNAL OF AN ANOTHER EXPORT-LED UPTURN GETTING UNDERWAY OR ARE MERELY A TEMPORARY FLUCTUATION FROM RECENT TRENDS. NEWS ACCOUNTS HAVE SUGGESTED THAT THE UNUSUALLY GOOD JANUARY TRADE PERFORMANCE WAS PARTIALLY GOOD JANUARY TRADE PERFORMANCE WAS PARTIALLY DUE TO THE BITTER WINTER WEATHER IN THE U.S. WHICH BOTH PRODUCED RUSH ORDERS FOR WINTER CLOTHING AND FOOTWEAR AND DELAYED ARRIVALS OF IMPORTS FROM THE U.S. ALSO HEAVY CRUDE PETROLEUM IMPORTS IN THE LAST MONTHS OF 1976 DECREASED ARRIVALS IN JANUARY, FURTHER WEAKENING THE IMPORT FIGURES.

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